

Changes to Canada's Mortgage Market



Fast facts

» Since 2008, the federal government has made several changes to the rules for government-backed insured mortgages that have reduced amortization periods and increased the minimum down payment required for home buyers.

» In 2012, the banks' regulator also introduced a new guideline that sets out requirements for prudent mortgage lending and the amount that banks can lend through a home equity line of credit.

» These changes may reduce the number of people qualifying for insured mortgages in Canada.



The bottom line

The government has changed mortgage requirements several times over the last few years which affects how people may qualify for government-backed insured mortgages. As the regulatory environment changes, banks in Canada continue to offer very competitive mortgage products and services to millions of Canadians.

Changing regulations in Canada's mortgage market

Since 2008, the federal government has made several changes to the rules for mortgages insured through the Canada Mortgage and Housing Corporation (CMHC) and other private sector mortgage insurance providers. These rules affect home buyers with less than a 20 per cent down payment and these changes will impact many first-time home buyers in Canada.

The changes include the following:

- The maximum amortization period has been reduced to 25 years from 40 years.
- Home buyers must have a down payment of at least five per cent of the home purchase price where previously no down payment was required. For non-owner occupied properties, a minimum down payment of at least 20 per cent is now mandatory.
- Canadians can now borrow to a maximum of 80 per cent of the value of their homes when refinancing, a drop from 95 per cent.
- Limiting the maximum gross debt service (GDS) ratio to 39 per cent and the maximum total debt service (TDS) ratio to 44 per cent.

These two important ratios are used when calculating a person's ability to pay down debt. GDS is the share of a borrower's gross household income needed to pay for home-related expenses, such as mortgage payments, property taxes and heating expenses. TDS is the share of a borrower's gross income needed to pay for all debts, including those relating to home ownership.

- Government-backed mortgage insurance is now available only for homes with a purchase price of less than \$1 million. Borrowers buying homes at or above this amount will need a down payment of at least 20 per cent if their financing is from a federally-regulated financial institution.



In June, 2012, the banks' prudential regulator, the Office of the Superintendent of Financial Institutions, also introduced a [new mortgage underwriting guideline](#) for banks and other federally regulated financial institutions. This guideline outlines some key principles for prudent mortgage underwriting that banks are required to follow. It also limits homeowners to borrowing no more than 65 per cent of the value of their properties through a home equity line of credit, down from 80 per cent previously.

What do these changes mean for consumers?

Because larger down payments and shorter amortization periods are now required, some people who would have qualified for a mortgage before may not qualify now. As a result, borrowers may respond by either deciding to postpone their purchase of a home or by buying a less expensive home.

Canadians are prudent borrowers

Historically, Canadians have been very prudent borrowers, and the best evidence of this is the [mortgage-in-arrears statistics](#) in Canada, which track the number of households that have not made mortgage payments in three or more months.

Less than half of one per cent of all mortgage holders with the country's largest banks are in arrears. This number has been stable for more than two decades, in times of high and low unemployment, high and low interest rates, and a strong or weak Canadian dollar.

Banks are prudent mortgage lenders

Canada's banks have a strong track record of careful, prudent lending and, according to the World Economic Forum, for being the soundest banks in the world for six years running.

Canada's banks adhere to prudent lending standards and ensure that consumers take on debt loads that are manageable. Because of this, Canada avoided the problems seen in the US housing market in recent years.

Banks, the government, regulators, and consumers all play an important role in ensuring that the Canadian mortgage and housing market remains stable and sound, which it has been for many years.

For more information

- Finance Canada's announcement of June 21, 2012 on mortgage changes
<http://www.fin.gc.ca/n12/12-070-eng.asp>
- OSFI's guidelines on mortgage underwriting principles
http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/sound/guidelines/b20_nr_e.pdf

» The Canadian Bankers Association works on behalf of domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 275,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions.